



## **PLUS Markets Group plc – results of strategic review**

### **Key highlights**

- First phase conclusion: no further funding required for existing business
  - Costs reduced by 40% to annual level of below £5 million from 2011
  - Working capital for next two years
  - Board plan to break even within two years
- Second phase conclusion: identification of new revenue streams
  - Broader product offering for small and mid-cap companies to include debt
  - New Retail Service Provider (“RSP”) hub, bringing trade execution onto PLUS
  - Product extension through launch of the PLUS Derivatives Exchange (“PDX”)
  - Investment in new technology

Cyril Theret, Chief Executive Officer of PLUS Markets Group plc, said: “This strategic review has allowed the new management team to analyse the rapid evolution of market regulation, technology and user preferences, and make some clear decisions about the future direction of the Company. We are creating a competitive stock exchange with an attractive product offering to meet the needs of today’s market users. Within that context, we remain committed to our core franchise of helping smaller companies to raise capital and retail investor services.”

### **Completion of strategic review**

Following the completion of its strategic review, announced on 25 March 2010, PLUS today confirms its intention to leverage its Recognised Investment Exchange (“RIE”) status by offering an innovative exchange venue in London, which brings together primary and secondary market listings, with trading flow from the retail and professional investment communities, across multiple asset classes.

PLUS Markets’ RIE status will be used to extend its product offering and diversify its revenue streams. This gives PLUS a comparative advantage over other market

infrastructure participants such as Multilateral Trading Facilities (“MTFs”) that are trading facilities only. The new venue will, in line with current European regulatory policy thinking, lay the foundations for “MiFID II” compliance – as the prevailing Markets in Financial Instruments Directive (“MiFID”) is under review - and underpin the principles of electronic execution, price transparency and best execution.

## **First phase of strategic review**

The first phase focused on re-aligning costs to existing revenues. Costs for the year ended 31 December 2009 were £8.75 million (reported administrative expenses were £11.56 million) and will be reduced to an annual level of below £5 million in 2011, after restructuring costs. This reduction of costs by some 40% is being achieved partly through headcount reductions, which have already been completed, but principally through changing our core technology offering.

PLUS has served notice on its Facilities Management Agreement with OMX Technology Limited (now part of Nasdaq OMX) with an end date in Q4 2010, and an in-house built quote and trade reporting facility will replace the existing services currently provided under this agreement. The decision to cancel the existing technology agreement was based on the need to support existing and new business lines in a simple, cost-effective and efficient manner.

The conclusion of the first phase of the strategic review, as announced on 21 May 2010, was that no further funding is required for the existing business. Existing cash resources will support PLUS as it closes the gap to profitability: the Company has two years’ worth of working capital and it is the Board's plan for the Company to reach breakeven within two years.

## **Second phase of strategic review**

New product and service opportunities are arising from enhanced focus on counterparty risk management and increases in the level of pre and post trade transparency since 2008. The rapid pace of development in the transaction technology sector is producing “next generation” systems offering ultra low latency. The post-MiFID market environment poses new challenges such as fragmentation, new liquidity providers, tighter credit conditions and margin pressures. Furthermore, as governments look to the private sector for future growth, the importance of small and medium sized enterprises (“SME”) capital raising and retail investor involvement in the markets is gaining greater prominence. PLUS’s response is to broaden its product offering to both sectors.

- **Enhancement of offering for small and mid-cap companies**

PLUS already supports public equity financing for companies through its PLUS-quoted market but also recognises that the challenges in accessing debt or bank finance, for both well-established private companies and quoted small and mid-cap companies, have increased in the last two years.

PLUS is therefore extending its market offering by forming an agreement with a specialist finance firm to create a new form of corporate bond product, expected to

launch in Q1 2011. Companies will issue bonds subscribed to through specialist funds. The products will be designed to provide good levels of income for retail investors, who seek a steady income without heavy intermediation costs.

- **Retail execution services**

PLUS is seeking to offer the same benefits of competition and choice to retail investors as MiFID has to many wholesale investors. As the UK's leading venue for retail trading services, PLUS plans to improve its offering through an RSP hub based on a Request For Quote ("RFQ") model providing best execution, single fill and price improvement opportunities to retail investors. The RFQ model will be rolled out alongside the new in-house built quote and trade reporting facility and will initially be targeted at the full list of UK securities (PLUS-quoted, AIM, and officially listed). It will subsequently be extended across multiple asset classes, subject to market demand. This will bring execution onto the PLUS trading platform, enabling PLUS to generate revenues from its retail trade execution for the first time.

- **PLUS Derivatives Exchange**

PLUS has set up the PLUS Derivatives Exchange ("PDX") to launch an innovative interest rate swap ("IRS") product. PLUS believes this is a significant opportunity to offer a new range of products which will allow large and medium sized companies, banks and inter dealer brokers to manage their interest rate exposures much more effectively.

This product will provide efficient access to full fixed-for-floating rate interest exposure through the FTSE MTIRS (Medium Term Interest Rate Swap) Index Series [Bloomberg <FOOT> - GO – option 8 – USD]. This will initially be through an over-the-counter ("OTC") cleared service, developing subsequently, subject to market demand, into a new exchange-traded product known as an Exchange-Traded Index ("ETI"), listed and traded on PLUS. PLUS has entered into licence agreements with FTSE Group, the global index provider, to launch this new range of multi currency IRS products.

## **Proposed new trading platform**

PLUS also has an opportunity to extend its customer base – and its ability to generate trade execution revenues - to a more diversified sell-side community such as investment banks and latency sensitive trading firms, in the context of the current MiFID review.

PLUS intends to launch a new lit book (order book) in 2011, subject to new funding of up to £10 million from potential users via a special purpose vehicle ("SPV"), created to make this step change to the market's current offerings. This lit book is to be provided in conjunction with Algo Technologies Ltd, with whom PLUS has entered into a Heads of Terms agreement, and who will supply their next generation platform offering ultra low latency, subject to SPV financing.

The combination of next-generation technology trading facilities and PLUS's listing function will enable multi asset class trading, including exchange traded products, on a pan-European basis.

## **Conclusion**

In conclusion, these initiatives are designed to diversify and increase the revenue base of the Company and to reposition PLUS as a fully fledged competitive London based stock exchange – the PLUS stock exchange. It will now be offering commercially attractive primary and secondary market services to companies and investors as well as providing a pan-European venue for major market players to drive their trading and listing activity.

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